Vanguard versus Personal Capital—A Personal Experience

[Editor’s Note: This a guest post from a regular reader, Scott Moore, DO, MLS (ASCP). As a pathology resident at the University of Arizona, Scott Moore realized that he wasn’t happy and tried to find out why. He switched to Dermatology in Scottsdale Arizona, but that experience only convinced him that teaching is where he finds his happiness. His dream job became available at his Alma Mater, so he made the difficult leap from medicine into academia. Now, he is the Professor of Clinical Chemistry and pre-medical advisor in the Department of Medical Laboratory Sciences at Weber State University in Ogden, Utah. This past summer Scott ran a brief “experiment” pitting Personal Capital against Vanguard. I have no financial relationship with Scott, but have Personal Capital as one of this website’s affiliate marketing partners and invest lots of money with Vanguard. Enjoy the post!]

Introduction
I make no claim to be a financial academician. The vast majority of my money is made from my work in clinical pathology and I am just as well trained in finances as most of you who read this. Thanks to WCI, I understand that I have an unofficial second job. My financial education came from reading a few books, the WCI website, and by making a few costly mistakes (fortunately, these happened a while ago, when my investments barely eclipsed 5 figures and weren’t THAT costly in retrospect, even if they seemed to be at the time). There was a promotion for the first 3 months of Personal Capital (PC) free, so I decided to run a side by side comparison that all of you might be interested in. I tried to do this as scientifically and non-emotionally as possible. Tried, being the operative word there.

Vanguard vs Personal Capital Summer Investing Showdown

I was offered the first three months for free with PC, and took advantage of the opportunity. At the same time, I ran a side-by-side comparison as I invested the same amount in my Vanguard (VG) account. I allowed PC to invest my funds as they would a normal client. At the end of the trial period, I canceled my account, compared my returns in each account, and projected tax implications. The following graph shows just how
similar of an investing philosophy VG and PC both have. I plotted the points every day, and nearly every market upturn and downturn was matched by a corresponding movement with the other holdings.

Quality of Service

I then compared the “comprehensive financial advisory
services” at PC and TIAA. TIAA offers financial services and support for teachers and is a benefit offered by my employer. I felt that Personal Capital’s service was acceptable, although they didn’t direct me or suggest anything new. I think this is a great service for people who have not done their continuing financial education and have no interest in managing their own money, but was of minimal value to me. It seemed superficial and scripted. With a company so large, it sort of has to be though. I didn’t feel that I received individualized advice. Each new idea that I presented to my advisor was rejected because “that’s not how things work here.” They do ask you upfront if there are any companies or sectors that you do not wish to support, and they will personalize your portfolio for you. This is one advantage that they have over mutual funds. For example, I’m not a coffee drinker, yet my mutual funds own Starbucks stock (so did my personal capital account). If I didn’t want to own that stock, then I could ask them not to buy it for me, which isn’t the case with index funds.

The first time we met with the TIAA advisor, my wife and I pulled out our investing personal statement (thanks for the idea WCI); he was shocked. I guess that’s not something he sees every day. He actually told me during our last meeting that he probably learns more from me than I learn from him. This financial planner actually helped make sure that we had all of our financial ducks in a row. He caught a few things I had overseen in accounts that he didn’t technically have stewardship over; specifically, he helped us correctly set up our beneficiaries on our investment accounts. He was also a great sounding board for new ideas that I had. It was a very good experience.

This was in contrast to the PC representatives, who at times felt like pushy salesmen. PC assigns an investment advisor and a personal planner to work with you on your account; you would think that each client would get great advice by having two
advisors, right?!? Unfortunately, I didn’t find that to be the case. Many times, they mentioned that they were giving me a “long-term” investment plan, insinuating that I didn’t have a robust one to begin with.

Transfer Speed

The transfer to Personal Capital took 2 weeks and my transfer to Vanguard took 4 days (including Saturday and Sunday) to be completed. I just let my investments sit in VG earning me more money for the 2 weeks that it took for the transfer to be recorded at PC.

Holdings

Nearly all of the stocks that PC purchased were found in Vanguard’s VTSAX, albeit at a slightly different percentage. This Total Stock Market Index Fund has a diversification advantage with 3,582 holdings as of March 2017 compared to PC’s strategy which is comprised of only 107 holdings. The major difference is that PC doesn’t use weight-based market capitalization, rather they distribute your investments evenly amongst the 10 sectors, which they call “tactical weighting.” The sectors in my PC account varied from 10% by +/- 2, while my VG account varied from 10% +/- 7.

Investment Philosophy

PC’s big selling point on “tactical weighting” was that with VG, you don’t have control over which individual stocks you own, and “bubbles” are created. When you have minimal exposure in energy, that not only means that you lose less if the stock goes down, but there is missed opportunity for growth. While that might be true, I don’t foresee that as a substantial issue and I think if it were a significant problem, then the mutual fund manager probably would rebalance the portfolio.
PC says they have a long-term investing strategy, but they still give all of their data based on the day-to-day change. The point of long-term investing is that the client should not be focused on the day-to-day change of their account balance, but rather the change over years. One can change the settings to view their graphs over the long-term, but the default setting is to view everything at the daily interval. This places a detrimental perspective in front of the client every single day. A long-term perspective might act as Lithium to stabilize PC investors’ ups and downs.

PC doesn’t claim to be passive, but they also reject the notion that they’re actively managing some of your investments. Somewhere in the region between active and passive is where this strategy lies. As far as I understand, there is a big algorithm that calculates when you are overvalued in a certain sector and tells your advisor to sell that stock to return back to the baseline of approximately 10% equity in each sector. They say that trades are made on your behalf nearly once every month or two to rebalance your portfolio. This is not a market cap weight based strategy, but instead, they call it tactical weighting and rebalance all the available sectors to approximately 10% of your portfolio. Having so many stocks, purchased nearly each month, gives them many opportunities to do tax-loss harvesting (TLH). PC’s big selling point is that “thousands of Vanguard investors are flocking to us, because when your sector weights are off, that is missed opportunity.”

Strengths of This Study

- These are my actual results over 3 months. I decided on May-July because I do not teach classes in the summer and could devote more time to perform the study properly.
- Used no-load index funds without tax-loss harvesting (TLH) for investing with VG in my competing taxable
Weaknesses of This Study

- This study only directly evaluated 3 months of investing with both companies during a bull market.
- The N of this study is just 1, but I would like to hear from anyone else who tried them out.
- I was unable to evaluate the variable of “bubbles” being formed in my market cap based funds.
- The benefits of TLH won’t be readily apparent until Feb/March 2018, but I don’t expect them to be massive.

I give generously to charities, earn a very low physician wage by choice, and have 2 children with another tax-deductible bundle of joy coming in November (whom I would love even if she didn’t come with tax benefits). These factors don’t look as good on my paycheck, but bode very well for my happiness and tax bill. I agree wholeheartedly with WCI, that I want to pay everything that I owe, but don’t want to leave Uncle Sam a tip. Personal Capital’s case for saving 1% on TLH seems weak to me. It takes minimal effort to be able to TLH yourself, and even if you do it perfectly, the results are modest at best and is not the optimal strategy in every circumstance.

After a quick calculation of PC’s 0.89% yearly fee which is assessed monthly, you quickly realize that on a $100k account, you have to make up nearly $1k in tax savings to make up for it. According to my calculations, this marginal benefit was only seen above the 28% tax bracket (i.e. taxable income after deductions of more than $233,350 if married filing jointly). While many physicians exceed this tax bracket, there are many exceptions, myself included.

Conclusion

Investing in low-cost index funds is a feasible strategy to
yield a substantially similar magnitude of success, without the additional costs. Personal Capital may have a marginal benefit for those who are taxed above the 28% tax bracket (i.e. taxable income after deductions >$233,350 for married filing jointly in 2017) AND for those who want a “hands-off” investment approach. One significant issue is that the investor will be paying this 0.89% fee even during market downturns and there is no possibility of getting that money back. As for me, I prefer to manage my own investments with a broadly diversified portfolio consisting primarily of low-cost index funds. My resistance to locking myself into this inevitable efflux of capital, which likely does not lead to higher returns, was well-founded in this scenario. I have closed my account, but am very glad that I tried this out for myself (for free) so that we all can learn from this experience.

[Editor’s Note: Like many bloggers, I have an affiliate marketing agreement with Personal Capital so if you’d like to try out their software (free) or their advisory service (not free, at least after 3 months) I appreciate you using the links on this page. Unlike many bloggers, I don’t think I’ve actually made much money from the relationship. I’ve written about the firm as part of my roboadvisor reviews here and here but the big issue is that pesky AUM fee. At 0.89% (3 times the price Vanguard charges for similar service and about what you can get a full-service advisor for) it is really a question of whether their method of sector weighting works better than just buying index funds or not.

The tax loss harvesting and advice you get may also have some value, but that’s relatively small when juxtaposed against a 0.89% AUM fee. The Mint-like software also has value, but that is also available for free. So this comparison of whether this method is best is helpful, even if it is only a 90-day mini-study. The jury is probably still out on that question, but initial results aren’t promising in a world where returns come
and go but expenses are forever.]

What do you think? Have you used Personal Capital, Betterment, or other roboadvisors? What was your experience like? Did you compare them to anyone else? Comment below!